

AR34



PINNACLE PETROLEUMS LTD.

INTERIM REPORT

SEPTEMBER 30th, 1973

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CONSOLIDATED STATEMENT OF EARNINGS

(Unaudited)

	For the six months ended September 30	
	1973	1972* (As Restated)
REVENUE		
Oil and gas sales less royalties	\$179,216	\$135,049
Interest and other revenue	17,373	22,332
	<u>196,589</u>	<u>157,381</u>
EXPENDITURES		
Production expenses	58,049	69,147
Administrative and general expenses	73,218	67,346
	<u>131,267</u>	<u>136,493</u>
CASH FLOW FROM OPERATIONS	<u>65,322</u>	<u>20,888</u>
PROVISION FOR		
Depletion	26,864	49,375
Depreciation	16,240	22,034
	<u>43,104</u>	<u>71,409</u>
NET PROFIT (LOSS) BEFORE EXTRAORDINARY ITEM	<u>22,218</u>	<u>(50,521)</u>
EXTRAORDINARY ITEM:		
Profit on disposal of production equipment	9,901	-
NET PROFIT (LOSS) FOR THE SIX MONTHS	<u>\$ 32,119</u>	<u>\$(50,521)</u>

*The 1972 figures have been restated to reflect the deconsolidation of a subsidiary company which does not form part of the consolidated group of companies on a continuing basis.



PINNACLE PETROLEUMS LTD. and subsidiary companies

**CONSOLIDATED STATEMENT OF SOURCE
AND APPLICATION OF WORKING CAPITAL**

(Unaudited)

For the six months ended
September 30

1973

1972*

(As Restated)

SOURCE OF WORKING CAPITAL

Cash flow from operations	\$ 65,322	\$ 20,888
Proceeds from disposal of equipment	14,513	550
Unit equalization proceeds	—	4,530
Total funds provided	<u>79,835</u>	<u>25,968</u>

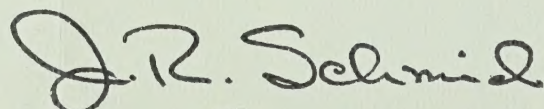
APPLICATION OF WORKING CAPITAL

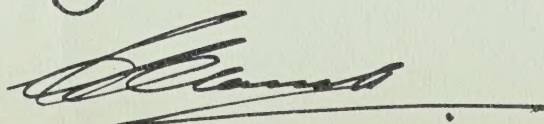
Exploration and development:

Oil and gas properties	86,318	61,884
Mining	601	29,250
Prepaid gas revenue	158	156
Leasehold improvements and furniture	3,112	1,486
Miscellaneous	310	—
Increase in advances to non-consolidated subsidiary	—	706
Total funds applied	<u>90,499</u>	<u>93,482</u>

DECREASE IN WORKING CAPITAL	<u>\$ 10,664</u>	<u>\$ 67,514</u>
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ON BEHALF OF THE BOARD:

 Director

 Director

REPORT TO THE SHAREHOLDERS

OIL AND GAS EXPLORATION

CANADA

The Company participated in 3 wildcat wells in the past 6 months. An option well at **Majorville** was completed as a Basal Blairmore gas discovery and an 8,120 foot Elkton test at **Crossfield** at last report had run production casing and was waiting on completion. A farm-out in the **Kisbey** area of Saskatchewan was dry and abandoned.

Our lease acquisition program continued during the past few months and acreage was purchased on oil and gas prospects in the **Hays, Rowley, Ponoka** and **Red Willow** areas of Alberta.

NORTH SEA

Grizzly Petroleum Limited a wholly owned subsidiary of the Company holds a 6¼% interest in Block 48/23 in the British North Sea which is under seismic option to another Company.

The option agreement required that any earning well drilled on the block be completed prior to September 30, 1973. The partners have now agreed to grant to the optionee a one-year extension of this September 30th commitment date.

PRODUCTION

The producing operations and reserve position of the Company were favorably affected by several factors over the past 6 months.

1) Net oil production was up 12% largely attributable to the commencement of water injection and pressure maintenance at the Belly River "B" South Unit where production is now 200% above 1972 levels.

2) Operating costs were down 15% mostly the result of abandonment of certain of the Company's marginal and uneconomic properties.

3) The price the Company receives for its crude oil was increased by 40¢ per barrel on August 1st.

4) A new and current evaluation of the Company was completed in August and again showed an increase in the Company's proved oil and gas reserves.

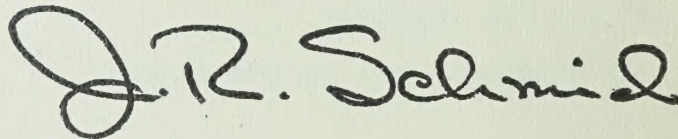
FINANCIAL

The results of the improved production rate, decreased operating costs, increased price for crude oil, and reserve additions are well reflected in the Company's earnings statement.

Revenue was up 32% resulting in a 200% increase in the Company's cash flow. This increase combined with a decrease in the provision for depletion caused by the added oil reserves resulted in a net profit of \$22,000 before extraordinary items for the 6 months compared with a loss of \$50,000 for the period in 1972.

Whether the Company can maintain this net profit position will be determined greatly by the treatment the industry receives in regard to both crude oil prices and crude oil royalties in the future.

Very truly yours,



J. R. Schmid,
Executive Vice-President
and General Manager

November 7, 1973

AR34



PINNACLE PETROLEUMS LTD.

INTERIM REPORT

SEPTEMBER 30th, 1972



PINNACLE PETROLEUMS LTD. and subsidiary companies

CONSOLIDATED STATEMENT OF EARNINGS

(Unaudited)

	For the six months ended September 30	
	1972	1971*
REVENUES		
Oil and gas sales and royalties	\$135,049	\$129,994
Interest and other income	22,332	19,458
	<u>157,381</u>	<u>149,452</u>
EXPENSES		
Operating expenses	69,147	45,376
General and administrative expenses	67,802	86,897
Interest expenses	2	188
	<u>136,951</u>	<u>132,461</u>
CASH FLOW FROM OPERATIONS	<u>20,430</u>	<u>16,991</u>
PROVISION FOR		
Depletion	53,475	41,568
Depreciation	22,034	24,046
	<u>75,509</u>	<u>65,614</u>
NET LOSS BEFORE EXTRAORDINARY ITEMS	<u>55,079</u>	<u>48,623</u>
EXTRAORDINARY ITEMS		
Provision for loss under an agreement	34,644	69,024
NET LOSS FOR THE SIX MONTHS	<u>\$ 89,723</u>	<u>\$117,647</u>

*The 1971 figures have been restated to reflect subsequent information and the audited statement of March 31, 1972.



**CONSOLIDATED STATEMENT OF SOURCE
AND USE OF WORKING CAPITAL**

(Unaudited)

	For the six months ended September 30	
	1972	1971*
SOURCE OF WORKING CAPITAL		
Cash flow from operations	\$ 20,430	\$ 16,991
Proceeds from sale of property	550	—
Unit equalization proceeds	4,530	—
Collection on note receivable	—	5,483
Prepaid gas revenue	—	1,105
	<u>25,510</u>	<u>23,579</u>
USE OF WORKING CAPITAL		
Exploration and development costs:		
Oil and gas properties	61,884	63,968
Mining	29,250	649
Prepaid gas revenue earned	156	—
Note receivable	—	2,189
Provision for loss under an agreement	34,644	69,024
Leasehold improvements	1,486	—
	<u>127,420</u>	<u>135,830</u>
NET INCREASE IN WORKING CAPITAL DEFICIENCY	<u>\$101,910</u>	<u>\$112,251</u>

*The 1971 figures have been restated to reflect subsequent information and the audited statement of March 31, 1972.

REPORT TO THE SHAREHOLDERS

FINANCIAL

Revenue for the six months ended September 30th increased 5% but continued general and administrative efficiencies resulted in a 20% increase in the cash flow for the period. A continuation of this modest cash flow from our operations is projected.

OIL AND GAS EXPLORATION

UNITED KINGDOM

North Sea

The Company, through its subsidiary Grizzly Petroleum Limited, holds a 6¼% interest with Burmah Oils, the operator, and other partners in Block 48/23 in the North Sea. The Block is adjacent to Block 48/18b where gas was discovered last April.

Agreement has been reached in which another company will conduct 150 miles of seismic on our Block with an option to drill a well before June, 1973 at no cost to Pinnacle and its partners. The seismic program is under way.

Onshore Licences

Exploration activity continues onshore in Britain, but to date the results have been discouraging. The most recent development affecting the Company is the staking of a 12,500 foot test within four miles of the western boundary of our Midlands Block. If the well reaches its projected depth, it will be the deepest well ever drilled onshore in the United Kingdom.

CANADA

The Company's acquisition program in the Leahurst area of Alberta is complete and a well is projected before year end.

In Saskatchewan, Pinnacle participated in two wells; one is attempting completion, the other is dry and abandoned.

Crown and Freehold lease acquisitions by the Company continue in both Alberta and British Columbia and other prospects are nearing the drilling stage.

MINERALS EXPLORATION

Final results of our extensive geochemical program in the Chibougamau area of Quebec have been received and are quite encouraging. Further exploration of our claims is now being formulated.

PRODUCTION

Net production for the six months remained stable but a recently announced price increase of 10¢ per barrel should result in noticeable increases in production revenue to the Company.

CORPORATE MATTERS

LITIGATION

Greyhound Leasing & Financial Corporation has brought action against the Company's subsidiary, Midalta Oil Company Limited, and D. Bruce Bullock for \$1,024,491.15 being the alleged balance owing under a Promissory Note from Midalta to the Bank of Montreal and guaranteed by D. Bruce Bullock. It is alleged the Note was assigned by the Bank to Greyhound.

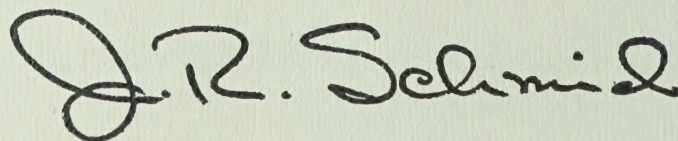
The Company has retained counsel to act in the matter and has been advised by its counsel that neither Pinnacle nor any of its other subsidiaries will be exposed to any liability regardless of the result of the action against Midalta, and that in addition, Midalta has a good claim over against D. Bruce Bullock & Associates Ltd. for any judgment that might be obtained by Greyhound.

BOARD OF DIRECTORS

At the Annual General Meeting of Shareholders held on August 28, 1972, the following were elected and are serving as your Directors:

R. L. Borden	Calgary, Alberta
W. C. Bumpers	Phoenix, Arizona
J. P. Floyd	Calgary, Alberta
W. H. Molle	Toronto, Ontario
J. R. Schmid	Calgary, Alberta

Very truly yours,



J. R. Schmid
Executive Vice-President
and General Manager

November 24, 1972